

China's WTO Accession and Idaho Agriculture

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Good afternoon, and let me thank Senator Crapo for inviting me to speak with you today. The Senator has been a great advocate for Idaho's farmers and ranchers in trade policy, in issues ranging from our disputes with Canada to his work on barriers to wheat sales to China and many other topics. And I am honored by his invitation to speak with you today.

I would also like to offer special greetings and thanks to Governor Kempthorne. Dirk is one of our nation's real leaders on trade policy, and plays a key role in helping to develop and guide policy as a member of our Intergovernmental Policy Advisory Committee.

USTR INTRODUCTION

Let me begin with a brief introduction of my job and the agency I head, and then turn to our central challenge for the year ahead: China's decision to join the World Trade Organization, and the implications of this event for Idaho's farmers and ranchers.

As U.S. Trade Representative, I lead one of the smallest agencies in government. We have 178 full-time employees and a budget of \$26 million; which is in fact not much more than the Defense Department spends on stationery every year. With this we address \$2 trillion in U.S. trade with the world. We monitor and enforce hundreds of agreements, on subjects ranging from cattle and wheat sales to Canada, to opening the Japanese market to American semiconductor. And, with help and advice from Senator Crapo, Governor Kempthorne, Congressman Simpson and the Idaho Congressional delegation as a whole, we develop the American agenda for the future.

Our work rests on a philosophical belief in open and fair competition, together with strong standards to ensure protection for our consumers, workers and environment. At home we are committed to an open market which increases competition and choice; overseas, we create opportunity for American businesses, working people and farmers as we remove trade barriers, cut foreign subsidies and fight unfair trade practices.

Under President Clinton, these principles have helped us negotiate nearly 300 separate trade agreements, including five of truly historic importance: the North American Free Trade Agreement, which cemented our strategic relationship with our neighbors Canada and Mexico; the Uruguay Round, which created the World Trade Organization; and three multilateral agreements on Information Technology, Basic Telecommunications and Financial Services.

In part because of this, our country's exports grew to nearly a trillion dollars in goods and services last year, 55% more than in 1992. Idaho, with its highly competitive farmers, natural resource industries and high-tech economy, has fully joined in this growth, with exports rising by more than \$320 million since 1992.

WTO ACCESSION IN CONTEXT

And the opening of China's market through WTO accession will allow us to go much further.

In one sense, our support for China's WTO accession is an element of our broader strategy for peace and security in the Pacific. Here, it represents our commitment to a stable and long-term relationship with the world's largest country and fastest-growing major economy: one in which we assert our values and interests when we differ, but also find and act on areas of mutual interest and benefit.

In another sense, it represents our support for reform and liberalization within China. With WTO accession, China adopts specific, enforceable commitments that together represent open markets, economic freedom, and the rule of law. These are elements of an open society, which were smashed in the years after the communist revolution and which China's current reforms have only partially rebuilt. And that is why many Hong Kong and Chinese activists for democracy and human rights see the WTO accession as the most important reform measure in the past twenty years.

But while it has these very profound implications, the WTO accession is at bottom a trade agreement. It will open China's market -- 1.2 billion people, and the world's third-largest economy -- in a way we have not seen since the 1920s.

WTO ACCESSION AND AMERICAN AGRICULTURE

China is already becoming an important market for Idaho products, with exports more than doubling since 1997 and substantial purchases of Idaho's processed food, paper, leather and high-tech products. But with WTO accession, this can go much further.

The bilateral agreement we reached in November is our first comprehensive agreement with China. It covers not only agriculture, but manufacturing, and services industries such as telecommunications, finance, the professions and others. It includes a product-specific safeguard to help us fight off import surges, a guarantee that we can use strong measures to fight dumping, and much more. In every case, the commitments are specific and enforceable; will be implemented rapidly; and hold China to the same standard we expect of all new WTO members.

The agreement's benefits will extend to all of our industries. Semiconductor firms like Micron will see tariffs on their products fall from about 13% to zero by the year 2005, and Idaho sawmills will see China -- already the world's third largest wood importer -- cut tariffs on wood and wood products from an average of 10.6% to 3.8%. China has also agreed to join any effort

to eliminate tariffs on wood products completely, and allow builders and other users to buy directly from our mills.

But no one will benefit more than America's farmers and ranchers, and Idaho's producers among them.

Our agreement opens China's market for all commodities of significant export interest to Idaho producers. It addresses all the related policies that block our exports -- value-added taxes, sanitary and phytosanitary standards, export subsidies, domestic supports, state trading, and trade in bulk commodities. And it strengthens our ability to ensure fair trade by dealing with import surges, dumping and more. To review just some of the results:

Tariffs: Beginning this year, and finishing by January 2004, China will cut tariffs on the commodities of top concern to the United States from an average of 31% to 14%. To give you a few specific examples:

- Tariffs on frozen beef will fall from 45% to 12%, and tariffs on pork from 20% to 12%.
- Tariffs on potato flour, meal and flakes will drop from 30% to 15%, and on frozen french fries from 25% to 13%.
- And Idaho's specialty producers will see similar benefits, with tariffs on lettuce falling from 16% to 10% and sweet corn from 25% to 10%.

Bulk commodities: China will set up a tariff-rate quota system for wheat, corn, cotton, soybean oil, barley, wool and wool tops, and rice that creates major new opportunities for American producers. To give you just one example, China imported 2 million tons of American wheat last year. It will set up a TRQ of 7.3 million tons, with tariffs fixed at 1%, immediately on entering the WTO. By 2004 this will rise to over 9.6 million tons. And the agreement includes specific provisions to give us every chance of making sure these TRQs are filled, for example by reserving part of each TRQ for private traders, and distributing TRQs which have not been filled to other end-users well before the end of the marketing year.

State trading, trading rights, and distribution: China will guarantee the right to import and distribute products without going through a state-trading enterprise or middle-man. Today almost no Chinese business, or foreign business operating in China, has these rights. Instead they have to ask the government's permission or request a state trading enterprise to buy for them. After this agreement goes into effect, that will change – so we can sell high-quality beef, potatoes and pork directly to hotels on the China coast, or wheat to Chinese mills.

Subsidies and domestic supports: China has committed to cap and reduce trade-distorting domestic subsidies, and to provide greater transparency to make its domestic support measures more predictable. And it will eliminate export subsidies completely.

Science-based sanitary and phytosanitary standards: China has agreed to eliminate SPS barriers that are not based on scientific evidence and no export subsidies on agricultural products. That includes eliminating unfair barriers to beef, lamb, pork and poultry, as well as to

wheat from Idaho and its neighbors. We are taking a very significant step forward in this area next week, when a Chinese research team visits the United States to begin implementing the agreement which ends a thirty-year ban on wheat from the Pacific Northwest. We have also begun a discussion with the Chinese on a protocol for exporting table stock and seed potatoes to China.

Biotechnology: As we look ahead to biotechnology issues, China – a significant user of these technologies – will be on our side against potential attempts by Europe or others to put up scientifically unjustifiable barriers to our products.

Thus our bilateral agreement addresses the full web of trade barriers in the China market. It goes from barriers at the border, to unfair restrictions on marketing within China, unscientific inspection standards and the agricultural technologies of the future. As it goes into effect, a fifth of the world population – now largely blocked from buying our agricultural goods – will become a new market for farmers, ranchers and food companies from Idaho and all over America.

WORK REMAINING

But the work is not yet done.

First, China must complete bilateral market access agreements like ours with a number of other WTO members, including Europe. It must also complete a multilateral negotiation at the WTO, principally covering commitments on rules. These steps are proceeding.

Second, we also have one obligation. No changes to U.S. law or import policies need to be made for China to become a WTO Member: we change none of our market access policies, lower no tariffs, change none of our laws controlling the export of sensitive technologies, and amend none of our fair trade laws. But we risk losing the full benefits of the agreement we negotiated if Congress does not grant China permanent Normal Trade Relations.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China in every year since normalization of diplomatic relations in 1979, and which the vast majority of countries already have.

But the Congressional vote on permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in each other's markets. And if Congress refuses to grant China permanent NTR, we therefore risk losing the full benefits of the agreement we negotiated, including comprehensive market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

In practical terms, that means our Asian, Latin and European competitors will reap these benefits of the agreement we negotiated, but American farmers and ranchers -- as well as other businesses from auto manufacturers, to semiconductor companies, sawmills, aluminum companies and other businesses -- may well be left behind. We can all imagine the

consequences if American producers face a situation in which our competitors from dozens of other countries – wheat growers in Argentina and Canada, cattle ranchers in Australia, farmers in Europe already taking advantage of export subsidy programs – have a built-in and potentially permanent advantage in the world's largest nation. The short-term cost to farm incomes would be substantial, and the implications for the long term even greater.

CONCLUSION

China's WTO accession is, therefore, a critical issue of incomes and livelihoods for America's farm families. It will come at a time when rural America has suffered more than its share of troubles -- from lost exports as a result of the financial crisis, to natural disasters in several parts of the country -- and many farm families are wondering how they will hang on.

For me that is reason enough to support it. But in a larger sense, the China accession is also a test of statesmanship for our country.

The WTO accession, together with permanent NTR, has the potential to create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy, creating a remarkable set of new opportunities for American farmers, ranchers and working people.

But it can also promote deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese. By speeding economic change, the agreement also has the potential to encourage China to evolve into a more open society. By advancing the flow of information, the pace of privatization, and the force of competition, this agreement will accelerate a process that is removing government from vast areas of people's lives – enabling them to farm their own lands, find their own jobs and decide their own futures – and bring the information revolution to cities and towns across China.

And it can offer the prospect of a relationship with the world's largest nation which may have moments of tension, but through which we also find common ground and strengthen hopes for peace.

That is the prospect before us. These are the stakes as Congress considers permanent NTR. And this is an opportunity our country must not miss.

Thank you very much.